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Central Intelligence Agency



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

13 March 1985

Japan: Coping Without Auto Export Restraints

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Summary

Fearing an export surge would provoke US retaliation, Tokyo probably will establish a semiformal monitoring system to control auto exports to the United States when the current voluntary restraint agreement (VRA) expires on 31 March. We believe the Japanese will take such action partly to undercut the perceived US effort to use the end of VRA as a bargaining chip in other negotiations. In addition, if Japan depends solely on informal restraints through self-policing by Japanese manufacturers, it could invite lawsuits by US auto dealers under US antitrust laws. Tokyo probably will consider an increase in exports of 10-20 percent above the current 1.85 million units as an appropriate level.

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Groping for a Solution

Tokyo anticipated that Washington would allow the VRA on auto exports to expire on 31 March. Officials have stated uniformly that Japan will not flood the US market, but Tokyo has been uncertain about what role the government should play in preventing an export surge.

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This memorandum was prepared by [redacted] Office of East Asian Analysis. Information available as of 13 March 1985 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Japan Branch, Northeast Asia Division, OEA, [redacted]

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The president of the Japan Association of Automobile Manufacturers (JAMA) insists that the auto industry will be "prudent" but admits an initial surge of shipments to the United States is possible as automakers attempt to adjust inventories. The large manufacturers, who have profited handsomely from restraints, would be happy to continue limiting US sales. The smaller manufacturers, who have increased capacity in the hope of capturing a larger share of the US market, probably will not cooperate without some form of official coercion. These firms believe that if restraints were resumed, they would likely be determined by market shares. Thus, they are probably already disposed to significantly boost shipments to improve their standing.

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MITI has considered allowing free trade, but we believe it has concluded that allowing the automobile manufacturers to police themselves is too risky. MITI fears an export surge that would provoke retaliation from Washington in other areas of US-Japan economic relations.

- o Politically powerful agriculture interests, the Japanese Chamber of Commerce, and Keidanren, the influential big business organization, all want to see some restraints on auto sales continued to reduce pressure in other sectors.

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MITI will probably also reject the idea of keeping its administrative guidance "nonpublic" or quiet. Tokyo will not want Washington to use the end of VRA as a bargaining tool in talks on liberalizing the four sectors discussed at the January summit. Despite Washington's claim that free auto trade can be restored, Tokyo will cite recent statements by Congressmen and other officials as evidence that Washington does not believe automobile trade should be completely free.

- o We do not believe MITI has the power to make the auto companies comply using administrative guidance only. The automobile industry has historically been relatively free from MITI interference and the only real power MITI exercises today over the manufacturers is as the negotiator of the various restraint agreements around the world.

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In our view, MITI will probably choose some form of semiofficial restraints. Given its concern with the overall US-Japan economic relationship, Tokyo does not want to lose the influence it now has in this potentially volatile area. They also are concerned that without official involvement in restraints, US auto dealers--unable to acquire all the cars they want to sell--might sue Japanese manufacturers under US antitrust laws for forming an illegal export cartel.

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Recent press reports indicate MITI is leaning toward a "weather forecast" system under which JAMA would submit monthly export figures to MITI. The Ministry is already using a similar system to monitor auto exports to the EC and Canada. MITI has the

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power to restrict exports for "the sound development of international trade" under the Foreign Exchange and Foreign Trade Control Law. The law has never been invoked to restrain auto exports, but is held in reserve as a threat. We believe neither the auto industry nor MITI wants the law to be invoked formally. Industry fears use of the law would allow MITI to expand its influence and, ironically, the Ministry probably fears its true lack of power would be highlighted. Japanese, in general, prefer not to have to use legal measures to effect administrative ends.

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Determining a Number

MITI officials probably have not decided what level of exports is appropriate, but they have begun discussions with car manufacturers to determine future shipping levels.

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[redacted] MITI, no doubt, would prefer that Washington provide guidance on a "proper" figure for auto exports. In the Japanese view, US involvement would reduce the leverage provided by Washington's claim that the lifting of VRA is a concession to Tokyo. In the absence of US advice, MITI probably will allow exports to increase around 20 percent, allotting larger market shares to the smaller manufacturers.

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